

## Message from the Chair

I am pleased to present the 1999 Annual Report of Investments for the period ending June 30, 1999 to you, the participants and beneficiaries of this retirement trust fund.

The 12 months ending June 30, 1999 were challenging for investors. During the summer of 1998, the Russian economic problems and hedge fund difficulties resulted in weak stock markets around the world. Later on, a strong recovery showed U.S. stocks registering a total return of 22.76% as measured by the Standard & Poor 500 Stock Index. The real estate markets showed solid income and appreciation, and international stocks had mixed results. Rising interest rates resulted in poor bond total returns.

PERS successfully met these challenges with a well-diversified investment approach. PERS posted very attractive total returns that essentially matched its policy targets. In each asset class level (with the exception of domestic fixed income), ASPIB's managers exceeded the median returns. The total fixed income pool's return of 2.24% was close – just under the target return of 2.69% for the year.

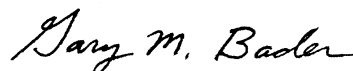
The retirement funds continued to show good performance results for fiscal year 1999. PERS registered a full year return of 10.59%. While the fund's actual return for the fiscal year exceeded the actuarial earnings target of 8.25%, it slightly underperformed the policy benchmark target of 10.62%. Over the longer term, fund performance exceeds the returns of the policy benchmark, and funding status continues to well-exceed the funding status of the average pension fund, including funding for future health care obligations not accounted for in many pension fund plans.

To ensure continued success, in January 1999 the trustees adopted a new goal for achieving best financial performance: "That we achieve top quartile investment returns on a risk-adjusted basis while limiting total risk to that of an average public sector plan over the long term." This goal will focus the trustees and investment staff on striving for high returns for the beneficiaries without exceeding a prudent risk level.

The Trustees have worked hard to achieve an asset mix that provides the highest expected return for a given level of risk. Working closely with our dedicated staff in the Department of Revenue and our investment advisors and consultants, we established an investment mix that we believe will provide enhanced returns while maintaining a prudent level of risk. The asset allocation plan adopted by the Trustees on March 24, 1999, called for an investment distribution as follows: 40% in Domestic Equities, 17% in International Equities, 32% in Domestic Fixed Income, 6% in International Fixed Income, and 5% in Real Estate.

ASPIB represents close to sixty thousand participants and beneficiaries. The Trustees strongly believe that you should be kept well informed about the performance of your retirement funds, and what we as fiduciaries are doing on your behalf. To this end, we are proud of the ASPIB web site, on which we have received very positive feedback. You can access our website at <http://www.revenue.state.ak.us/treasury/aspib/index.htm>. We continue to encourage member participation at our meetings, and welcome your letters and comments.

On behalf of all the Trustees, thank you for giving us the opportunity to serve as your fiduciaries.

  
Gary M. Bader, Chair

## ALASKA STATE PENSION INVESTMENT BOARD



### **Gary M. Bader, Chair**

PERS Representative

Gary M. Bader, Chair, was elected by the Public Employees' Retirement System. Mr. Bader has held numerous positions in State government including three years in the Office of Management and Budget and seven years in the Department of Administration, where he was Deputy Commissioner and Director of Retirement and Benefits. He is currently Superintendent of Schools for the Juneau School District. Mr. Bader has a B.S. in Business Administration and a master's degree in Education Administration. He was previously employed with a major Wall Street investment firm where he was licensed with the New York Stock Exchange. Mr. Bader's term expires December 31, 2002.



### **Dorothy Wells, Vice Chair**

TRS Representative

Dorothy Wells, Vice Chair, was elected by the Teachers' Retirement System. A resident of Alaska for 37 years, Ms. Wells is a retired teacher who taught business education at Eielson Air Force Base, and business classes for the University of Alaska night school program at Eielson. She obtained her undergraduate degree from the University of Minnesota and did graduate work both there and at the University of Alaska-Fairbanks. Ms. Wells served on the Teachers' Retirement Board for 20 years, and is active with NEA-Alaska/Retired. Ms. Wells term expires December 31, 2001.



### **Gail R. Schubert, Secretary**

Appointed by the Governor

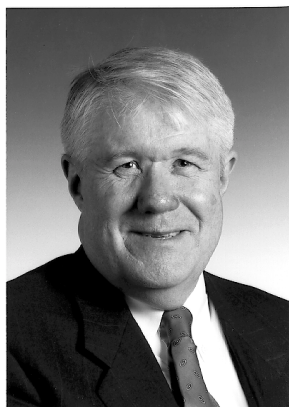
Gail R. Schubert, Secretary, was appointed to the board by Governor Knowles. She is currently a partner for the law firm of Foster, Pepper, Rubini & Reeves in Anchorage. Her practice includes health care and fisheries issues, tax, estate planning, and corporation law. From 1992 to 1995, Ms. Schubert practiced law at Birch, Horton, Bittner & Cherot, and prior to that, from 1982 to 1992, Ms. Schubert practiced law in New York at the firms of Rogers & Wells, Fried & Frank, Harris, Shriver & Jacobson, and at the Federal Reserve Bank of New York. Ms. Schubert attended the School of Law at Cornell University, the Johnson School of Management (MBA) at Cornell, and Stanford University. She served on Governor Knowles' Fiscal Policy Transition Team, and serves on the Alaska Native Heritage Center, and on the boards of the Bering Straits Native Corporation, Akeela Treatment Services, and the Alaska Native Justice Center. Ms. Schubert's term expires December 31, 1999.



### **William (Riley) Snell**

Appointed by the Governor

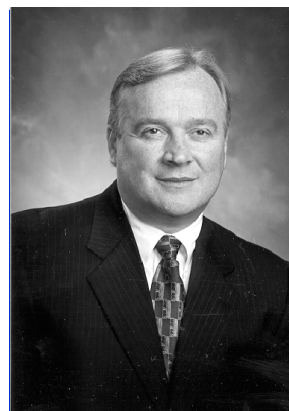
William (Riley) Snell was appointed to the board by Governor Knowles. Mr. Snell has held numerous positions in State government. He served as the Executive Director of the Alaska Industrial Development and Export Authority (AIDEA) from July 1992 until November of 1996 overseeing banking and development programs. Four years prior to the Executive Director position, Riley served as Deputy Director-Development at AIDEA. From 1985 until July 1989 he served as Deputy Commissioner for the Central Region of the Department of Transportation and Public Facilities. Riley possesses over 27 years of experience in State Transportation and Public Facilities Development and Public Financing. Currently Riley is Vice President and General Manager of Cable and Entertainment for General Communications Inc. (GCI). His responsibilities at GCI include CATV product management as well as construction and maintenance of all outside plant facilities for the company.



### **Wilson L. Condon**

Statutory Representative

Wilson L. Condon was appointed Revenue Commissioner in February 1995. He oversees an agency that has very diverse responsibilities, including tax collection, investing state funds, child support enforcement and distributing permanent fund dividends. He was a partner in a private law firm from 1983-1995. Wilson was lead counsel for the state in a series of oil and gas royalty and tax cases. He served as Attorney General from 1980-1982 and as Deputy Attorney General from 1975-1980. He holds an A.B. Political Science degree and a J.D. degree from Stanford University. As Revenue Commissioner, he also sits on nine boards, including the Board of Trustees of the Alaska Permanent Fund Corporation.



### **Jeffrey E. Sinz**

Appointed by the Governor

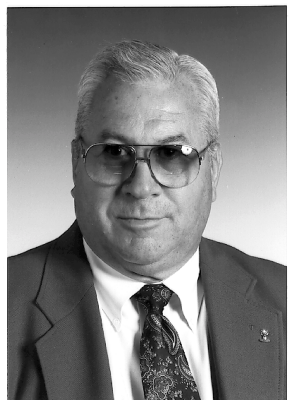
Jeffrey E. Sinz was appointed to the board by Governor Knowles. Mr. Sinz is currently Director of Finance for the Kenai Peninsula Borough. He has over twenty years experience in public sector finance including thirteen years with the Municipality of Anchorage where he was Municipal Accounting Officer, Director of Finance for the Anchorage Telephone Utility, Finance Manager for the Solid Waste Services Utility, and a Senior Budget Analyst for the municipal general government. He also worked for two years as a financial planner and supervisor with the Alaska Railroad Corporation, and for five years as a financial administrator with a Wisconsin public school district. Mr. Sinz currently serves on the Board of Directors for the Kenai Peninsula Economic Development District and the Alaska Municipal League Investment Pool. He has an MBA in Management from the University of Alaska Anchorage and a BBA in Finance from the University of Wisconsin Eau Claire. Mr. Sinz's term expires December 31, 2000.



### **Merritt C. Olson**

TRS Representative

Merritt C. Olson served as a member of the Teachers' Retirement System Board for 14 years, a portion of that time as Chair. He has been an Alaska resident for 46 years and resides in Anchorage. Appointed by Governor Egan to serve on the committee that organized the Student Loan Fund, he also served as a member of AARP's State Legislative Committee. Now a retired secondary mathematics teacher from the Anchorage schools and adjunct instructor of psychology at Alaska Methodist University and the University of Alaska, Anchorage, Mr. Olson earned his Ph. D. from Rutgers University and was a Fulbright Scholar in 1957-58. He is Past President of NEA-Alaska/Retired and served on the NEA-Retired (national) Advisory Council for six years. Mr. Olson's term expires December 31, 1999.



### **J.P. "Pat" Wellington**

PERS Representative

James "Pat" Wellington was elected by the Public Employees' Retirement System. Mr. Wellington was born in Ketchikan, Alaska and graduated from Douglas High School. He served two years in the U.S. Army and started his law enforcement career with the Seward Police Department in late 1955. He served as Deputy U.S. Marshal, Alaska State Troopers, Chief of Police of Juneau, Deputy Commissioner and Commissioner of the Department of Public Safety, and retired in 1977 as Director of the Alaska State Troopers. Mr. Wellington is also the Chairman of the Public Employees' Retirement Board. He resides in Anchorage. Mr. Wellington's term expires December 31, 2000.

Department of Revenue Treasury Division S T A F F		
<b>Commissioner</b> Wilson L. Condon	<b>Chief Investment Officer</b> Robert D. Storer	<b>Investment Officers</b> Michael S. Cheung, CFA, Marketable Debt John Jenks, CFA Chris Phillips, CFA Bob Mitchell Steve Sikes
<b>Deputy Commissioner</b> Ross A. Kinney	<b>Comptroller</b> Betty Martin, CPA	
	<b>ASPIB Liaison Officer</b> Judy Hall	<b>Cash Management</b> Michelle M. Daugherty, MBA, CPA, CCM
External Money Managers and Consultants		
<b>Investment Consultants</b> Callan Associates Inc. San Francisco, CA The Townsend Group Denver, CO	<b>Domestic Equity Index Fund</b> State Street Global Advisors Boston, MA	
<b>Domestic Fixed Income</b> BlackRock Financial Management, Inc. New York, NY	<b>Emerging Markets</b> Capital Guardian Trust Co. Los Angeles, CA J.P. Morgan Investment Management, Inc. New York, NY	
<b>Domestic Equity Large Capitalization</b> Ark Asset Management Co., Inc. New York, NY American Express Asset Management Group Minneapolis, MN Invesco Capital Management, Inc. Atlanta, GA Capital Guardian Trust Co. Los Angeles, CA Dresdner RCM Global Investors San Francisco, CA McKinley Capital Management, Inc. Anchorage, AK	<b>Global Equity</b> Lazard Freres Asset Management New York, NY	<b>International Equity—EAFE</b> Bank of Ireland Asset Management (US) Ltd Santa Monica, CA Brandes Investment Partners, L.P. San Diego, CA Lazard Freres Asset Management New York, NY
<b>Domestic Equity Small Capitalization</b> Capital Guardian Trust Co. San Francisco, CA Dresdner RCM Global Investors San Francisco, CA John McStay Investment Counsel Dallas, TX	<b>International Equity—European</b> Citibank Global Asset Management London, England	<b>International Equity—Pacific Basin EX Japan</b> Invesco Global Asset Management San Francisco, CA Wellington Management Co. LLP Boston, MA

## External Money Managers and Consultants

### International Fixed Income

Delaware International Advisers Ltd.  
*London, England*

### Private Equity

Abbott Capital Management, L.P.  
*New York, NY*

### Performance Measurement

Callan Associates Inc.  
*Denver, CO*

### Real Estate Management—Commingled Funds

Allegis Realty Investors  
*Hartford, CT*  
Heitman Capital Management  
*Chicago, IL*  
JP Morgan Investment Management Inc.  
*New York, NY*  
Sentinel Real Estate Corporation  
*New York, NY*

### Real Estate—Core Separate Accounts

Allegis Realty Investors LLC  
*San Francisco, CA*  
PM Realty Advisors  
*Newport Beach, CA*

### Real Estate - Value Added Separate Accounts

Lowe Enterprises Investment Management Inc.  
*Los Angeles, CA*

### Investment Advisory Council

James C. George  
*Portland, OR*  
Jerrold Mitchell  
*Wayland, MA*  
Robert A. Haugen  
*Durango, CO*

### Independent Auditors

KPMG Peat Marwick, LLP  
*Anchorage, AK*

### Global Master Custodian

State Street Bank & Trust Co.  
*Boston, MA*

### Legal Counsel

Wohlforth, Vassar, Johnson & Brecht  
*Anchorage, AK*

### Supplemental Benefits System

Barclays Global Investors, N.A.  
*San Francisco, CA*  
Capital Guardian Trust Company  
*Los Angeles, CA*  
T. Rowe Price Investment Services  
*Baltimore, MD*  
State Street Global Advisors  
*Boston, MA*

### Deferred Compensation

Barclays Global Investors, N.A.  
*San Francisco, CA*  
Capital Guardian Trust Company  
*Los Angeles, CA*  
T. Rowe Price Investment Services  
*Baltimore, MD*

## Public Employees' Retirement System Investment Report

The Investment Report was prepared by the State of Alaska, Department of Revenue, Treasury Division.

### INVESTMENT OVERVIEW

The Alaska State Pension Investment Board's (ASPIB) investments continue to earn double-digit returns for the Public Employees' Retirement System (PERS). For Fiscal Year 1999, PERS earned 10.59%. Annualized returns for three and five years are 14.46% and 14.54%, respectively, well ahead of the 8.25% actuarial assumption rate.

For FY99, the PERS investment portfolio continued to benefit from the bull market in global equities. For the year, the U.S. equity portfolio earned 16.56% and the international equity portfolio returned 14.72%. The U.S. fixed-income market slumped in the last six months of the fiscal year, however, resulting in a modest return of 2.24% for the year.

ASPIB continued the systematic increase in PERS investments in real estate and private equity. The real estate portfolio earned 10.51% for FY99. PERS private equity investments are too new to have a meaningful impact on the portfolio's returns.

### DOMESTIC ECONOMY

The U.S. economy grew at an annualized rate of 4.1% during FY99, with the strong jobs market a major factor in the continued growth. During FY99, the economy created an average of 268,000 new jobs a month, helping to bring the nation's unemployment rate to 4.3% at year's end. The housing sector also prospered. Monthly sales of new homes remained above an annualized rate of 800,000 new homes for most of the year. Sales of existing homes also remained strong and finished the year at a record pace of 5.5 million units. Housing prices also improved at the fastest pace since the early 1990s. Retail sales remained strong, growing at an 8% rate.

Despite the economy entering its ninth year of expansion, inflation remained benign. The main reason was the continued weakness of energy prices. During the year, the price for West Texas Intermediate crude—the benchmark for the nation's oil prices—declined from \$17 per barrel to \$12.50 per barrel, though it rebounded to \$19 by the end of the year. Other indicators also reflected low inflation. The consumer price index gained only 2% during the year, while the producer price index gained just 1.4%.

The strong U.S. economy continued to dominate the global economy, unfortunately pushing the United States into a deeper trade deficit. The nation finished the year with a more than \$200 billion trade deficit, or close to 2% of the gross national product. Foreign investors continued to have a strong interest in U.S. dollar investment opportunities, helping to fund the trade deficit. This caused some experts to argue that the U.S. dollar eventually will decline, contending that as global economies regain strength investors would sell U.S. dollars and reinvest them in international markets.

The Federal Reserve Bank eased short-term interest rates three times during the first half of the year. However, as the domestic economy continued to grow and global economies stabilized during the year, the central bank raised interest rates once at the end of the year. The Federal Reserve Bank appeared to pay close attention to any surge in inflationary pressure and indicated its intention to maintain the economy's overall price stability. Central bank officials are concerned about inflationary pressure from an economy operating at full employment and a stock market with lofty valuations.

### EQUITIES

The PERS portfolio continued to benefit from a strong U.S. equity market, earning a 16.56% rate of return for the fiscal year. Annualized returns for three and five years are 22.65% and 23.18%, respectively.

## Public Employees' Retirement System Investment Report

Much as in FY98, ASPIB's U.S. equity managers that favored large growth-oriented companies achieved higher returns than other investments. For the year, the average large-company growth managers earned 22.63% and the average large-company value manager earned 13.82%. Those returns masked a weak year for investments in smaller companies. The average small-company equity managers that invested in value-oriented companies lost 2.94%, and small-company growth managers earned 3.85% for the year.

Returns for the international equity market were a mirror image of the prior year. In FY99, managers of Asian equity portfolios earned returns averaging more than 40%, while the average manager of a European equity portfolio lost slightly less than 1%. The average international equity manager earned less than 8%.

As for PERS, its international equity portfolio earned significantly higher returns than the average international equity manager. For the year, PERS earned a 14.72% rate of return. Annualized returns for the past three and five years are 11.02% and 10.38%, respectively.

### FIXED INCOME MARKET

The domestic fixed-income portfolio represents approximately 30% of the total assets of PERS. The fixed-income portfolio is a core-oriented strategy utilizing U.S. Treasury securities, U.S. government agency securities, and investment-grade corporate bonds in a portfolio with minimal exposure to mortgage-backed securities.

FY99 began with the threatened collapse of a large U.S. hedge fund, Long Term Capital Management, requiring the Federal Reserve Bank of New York to step in and organize a recapitalization of the fund. At the same time, financial setbacks in Russia and devaluation rumors in Brazil and China created global financial turmoil. Financial uncertainty caused volatility in the fixed-income markets to increase.

The Federal Reserve Open Market Committee stepped in to lower interest rates three times in the first six months of FY99. The Federal Reserve's intent was to enhance liquidity and restore confidence to the financial markets. Lower interest rates caused bond prices to increase and the PERS fixed-income portfolio performed well compared to their Lehman Brothers Government/Corporate Bond Index.

The second half of FY99 began with strong U.S. consumer confidence and a very strong U.S. economy. Fixed-income markets were wary of increased interest rates due to the strong U.S. economy, and a vigilant Federal Reserve Open Market Committee. Although the Federal Reserve did not raise interest rates until the last day of the fiscal year, the markets began to reflect the anticipated rate increases as early as February 1999. Higher interest rates lower the price of bonds and, as a result, February 1999 was the worst month in the 1990s for U.S. Treasury market. The expectation of higher interest rates led to lower returns for the second half of the fiscal year, lowering the entire year's performance of the PERS fixed-income portfolio. The total return for the first six months of FY99 for PERS was almost 5%, while the 12-month performance, ending June 30, was 2.24%.

The international fixed-income portfolio represents approximately 5% of the total assets of PERS. During FY99, the international bond portfolio returned 5.27%, compared to the Salomon Brothers Non-US Government Index of 4.87%. Global economies remained on a slow road to recovery. The Japanese economy grounded out a small positive growth during the second half of the year, though its growing budget deficit and the ineffectiveness of its monetary policy caused the Japanese bond market to decline for the year. Other Asian economies, however, recovered strongly during the year. The South Korean economy led the rebound with an annualized growth rate of 8%, and the year closed out with a general view that Asian economies have turned around. Uncertainties remained for China



## Public Employees' Retirement System Investment Report

and its ability to revive domestic demand and avert currency devaluation.

The introduction of the Euro as a single currency for 11 European countries during the year produced initial optimism about the currency. Nonetheless, economic news showed that European economies still have different growth paths and investors questioned the feasibility of a single monetary policy for Europe. This put pressure on the Euro and caused it to decline by more than 13% against the U.S. dollar. The European bond market also suffered as bond yields in general increased by more than 0.80% during the second half of the year.

### PRIVATE MARKETS (REAL ESTATE AND PRIVATE EQUITY)

PERS investments in real estate and private equities continued to increase. ASPIB has committed 11% of PERS to these investments, as these private markets offer attractive risk and return characteristics. Because of the nature of private-market transactions, achieving the long-term targeted level of investment takes time. ASPIB plans to achieve its real estate investment target by FY 2001 and its private equity target by FY 2003.

ASPIB's long-term target is to invest 8% of PERS in real estate. At the end of FY99, the system had just under 4% of its assets invested in real estate. The rate of investment increased in the second half of the fiscal year and is on pace to achieve the investment target. Real estate produced a return, net of fees, of 10.51% during FY99. The three-year and five-year annualized returns are 13.08% and 10.92%, respectively.

The turmoil in the emerging markets and Asia that caused such disruption in other asset classes had a moderating affect on real estate. The global increase in risk aversion, combined with the continued low stock price of publicly traded real estate

companies, served to slow the rapid price appreciation on existing properties. The net effect of all this was to significantly reduce the level of speculative new construction. Excess new construction is the primary cause of real estate downturns. While several cities suffered modest overbuilding, real estate markets nationally appear to be in balance, providing a good environment for ASPIB's increasing investment in real estate.

ASPIB's long-term target is to invest 3% of the system's assets in private-equity limited partnerships. Investments in private equity are particularly sensitive to market cycles, and ASPIB has put in place a five-year plan to reduce the market-cycle risk. At the end of FY99, the system had committed to 22 private-equity limited partnerships and invested approximately 0.5% of the plan's assets. This meets the planned investment schedule.

The nature of private-equity limited partnership investing and the short period the system's partnerships have been in existence make measuring and evaluating returns difficult. Because of the nature of the partnership investment activity and accounting conventions, partnerships generally report losses in their first year or two. Therefore, it's no surprise that the system had a negative return of 8.53% for FY99. The PERS investment history in private equity is too short to have three-year or five-year returns. ASPIB continues to expect superior long-term returns from private-equity investments.

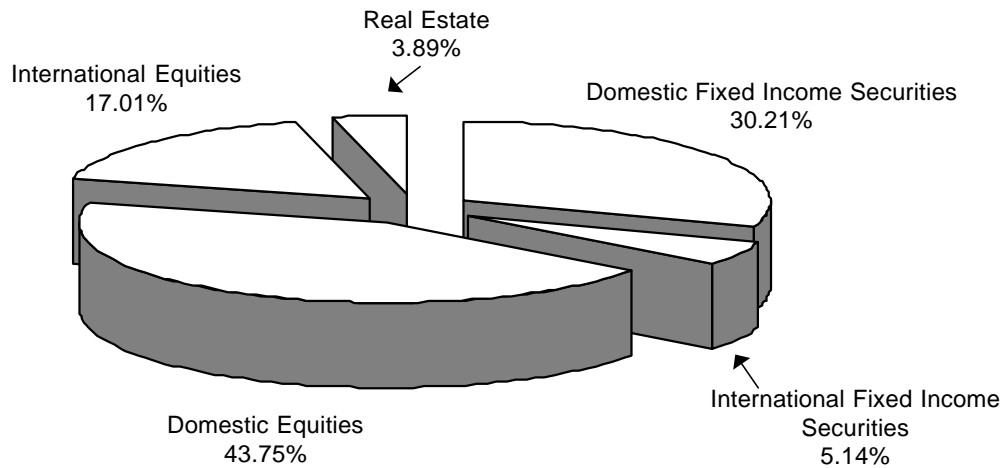
Two major trends are affecting the private-equity investment environment. First, there were record commitments to private equity by institutional investors. This implies significant competition for the best investment opportunities. Secondly, the dynamic nature of Internet development, combined with global economic disruptions, have created more investment opportunities than ever before. On balance, investment expectations for new partnerships remain good.



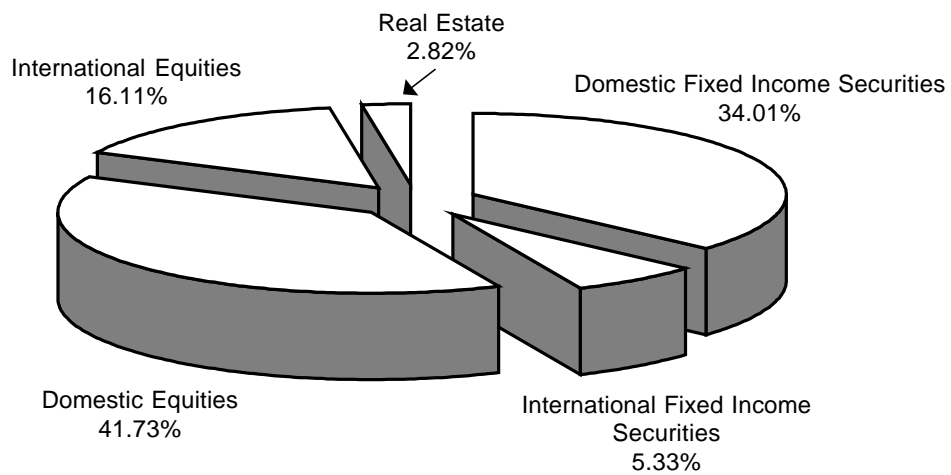
Public Employees' Retirement System Schedule of Investment Results Fiscal Years Ended June 30							
						Annualized	
	1995	1996	1997	1998	1999	3 Year	5 Year
<b>Total Fund</b>							
PERS	15.56%	13.79%	18.18%	14.73%	10.59%	14.46%	14.54%
Actuarial Earnings Rate	8.00%	8.00%	8.25%	8.25%	8.25%	N/A	N/A
<b>U.S. Common Stock Returns</b>							
PERS Domestic Equities	22.82%	25.13%	27.52%	24.22%	16.56%	22.65%	23.18%
S&P 500	26.08%	26.14%	34.66%	30.27%	22.76%	29.11%	27.87%
<b>International Stock Returns</b>							
PERS International Equities	3.40%	15.78%	18.52%	.66%	14.72%	11.02%	10.38%
Morgan Stanley Capital International EAFE	1.66%	13.28%	12.84%	6.10%	7.62%	8.82%	8.21%
<b>Domestic Fixed Income Securities</b>							
PERS	12.71%	4.55%	7.96%	11.53%	2.24%	7.18%	7.79%
Lehman Brothers Government/Corporate	12.76%	4.65%	7.76%	11.28%	2.69%	7.18%	7.76%
<b>International Fixed Income Securities</b>							
PERS	-	-	-	.36%	5.27%	-	-
Salomon Non-U.S. Government	-	-	-	.89%	4.87%	-	-
<b>Real Estate Equity</b>							
PERS	7.89%	7.32%	12.44%	16.38%	10.51%	13.08%	10.92%
NCREIF	7.83%	9.57%	11.29%	17.21%	11.24%	13.58%	11.29%
<p>S&amp;P 500 = Standard &amp; Poor's Domestic Equity Stock Index  EAFE = Europe, Australia, and Far East Stock Index  NCREIF = National Council of Real Estate Investment Fiduciaries Index</p> <p>The calculation of investment results were prepared using a time-weighted rate of return based on the market rate of return in accordance with the Association for Investment Management and Research (AIMR) Performance Presentation Standards.</p>							

**Public Employees' Retirement System Trust Fund  
Actual Asset Allocation**

**June 30, 1999**



**June 30, 1998**



**Alaska State Pension Investment Board**  
**Top Ten Holdings by Asset Type**  
**June 30, 1999**

Invested assets under the fiduciary responsibility of the Alaska State Pension Investment Board (ASPIB) have been commingled in various investment pools to minimize costs and maximize returns. Treasury Division has created nine different mutual fund-like pools to accomplish the investment asset allocation policies of the ASPIB. Using investment pools increases investment efficiency in three ways. First, combining individual funds' cash inflows and outflows to offset each other reduces the amount of cash on hand needed to support daily operations. Treasury can thus increase the return on funds not needed for daily cash operations. Second, pooling investments significantly reduces accounting, budgeting and administrative costs. Finally, the ASPIB can achieve economies of scale by making available investment options that could not otherwise be practically provided for smaller retirement funds. Following are the 10 largest holdings of the four major pools by asset type.

	Rank	Fair Value	Security	Coupon	Due	Credit Rating
<b>Domestic Fixed Income</b>	1	227,977,941	U.S. Treasury Bond	12.000%	8/15/13	AAA
	2	225,104,300	U.S. Treasury Bond	8.125%	8/15/21	AAA
	3	139,602,645	U.S. Treasury Bond	10.375%	11/15/12	AAA
	4	107,749,118	U.S. Treasury Bond	8.125%	5/15/21	AAA
	5	100,623,600	Federal National Mtg Assn.	5.125%	2/13/04	AAA
	6	92,928,800	U.S. Treasury Note	7.875%	11/15/04	AAA
	7	90,139,100	U.S. Treasury Note	7.000%	7/15/06	AAA
	8	89,212,213	U.S. Treasury Bond	8.750%	5/15/17	AAA
	9	74,913,560	Ford Motor Credit Corp.	5.800%	1/12/09	A1
	10	74,184,981	Farm Cr Sys Finl Assist Corp.	9.375%	7/21/03	AAA
<b>International Fixed Income</b>	1	67,971,157	German Federal Republic	6.000%	1/4/07	AAA
	2	60,490,308	Netherlands	8.250%	9/15/07	AAA
	3	52,955,833	Spain	5.150%	7/30/09	AA2
	4	45,281,104	German Federal Republic	6.500%	7/15/03	AAA
	5	30,307,734	Australia Commonwealth	7.000%	4/15/00	AAA**
	6	27,533,289	Sweden	9.000%	4/20/09	AA1
	7	25,201,939	New Zealand	10.000%	3/15/02	AAA
	8	24,723,421	New Zealand	8.000%	11/15/06	AAA
	9	22,925,183	Netherlands	8.750%	9/15/01	AAA
	10	22,539,487	Germany Federal Republic	8.375%	5/21/01	AAA
<b>Domestic Equities</b>	1	78,299,650	International Business Machines			
	2	77,631,000	General Electric Co.			
	3	76,226,475	Microsoft Corp.			
	4	65,955,033	Citigroup, Inc.			
	5	65,710,624	AT&T Corp.			
	6	64,614,118	Bank Amer Corp.			
	7	64,592,496	Tyco Int'l Ltd New			
	8	64,332,063	MCI Worldcom, Inc.			
	9	59,827,670	Bell Atlantic Corp.			
	10	55,959,750	Intel Corp.			
<b>International Equities</b>	1	70,058,740	Emerging Markets Growth Fund*			
	2	55,615,550	MGT Emerging Markets Equity Fund*			
	3	36,707,380	ING Groep NV			
	4	34,630,150	HSBC Holdings			
	5	28,976,051	Hitachi			
	6	28,831,987	Diageo			
	7	28,614,567	Deutsche Telekom			
	8	28,479,191	Vivendi			
	9	27,656,117	Alcatel			
	10	25,079,437	Elf Aquitaine			

\* The retirement trust funds hold an equity share in the Emerging Markets Equity Pool.

\*\* Standard and Poor's rating.

**Public Employees' Retirement System  
Schedule of Investment Management Fees  
Year Ended June 30, 1999**

	Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 1999	Fees
<b>External Management Fees</b>		
Domestic Fixed		
BlackRock	\$ 126,273,773	\$ 17,187
International Fixed		
Delaware	634,198,874	524,957
Domestic Equity		
American Express Asset Management	590,651,914	897,571
Ark Asset Management	512,278,417	1,021,754
Capital Guardian Trust	903,220,562	1,077,313
Invesco	530,581,650	845,238
John McStay	323,863,743	1,280,161
MacKay Shields	-	123,842
McKinley Capital	157,068,096	345,463
RCM	682,276,199	2,099,501
State Street Global Advisors	1,120,837,664	161,138
Total	4,820,778,245	7,851,981
Alternative Investments		
Abbott Capital	65,149,009	175,475
International Equity		
Bank of Ireland	438,691,994	854,308
Brandes	516,864,224	1,114,759
Citibank	262,867,772	833,217
Invesco	113,863,868	358,996
Wellington	114,764,973	288,844
Total	1,447,052,831	3,450,124
Global Equity		
Lazard	1,043,526,792	2,073,355
Emerging Market		
Capital Guardian Trust	70,058,740	221,973
JP Morgan	55,620,867	276,309
Total	125,679,607	498,282
Total External Management Fees	\$ 8,262,659,131	14,591,361

**Public Employees' Retirement System  
Schedule of Investment Management Fees  
Year Ended June 30, 1999**

	<u>Fees (con't)</u>
<b>Other Management Fees</b>	
Custodian	
State Street Corp.	\$ <u>673,553</u>
Investment Advisory	
Callan Associates	32,485
Investment Advisory Council	45,659
The Townsend Group	<u>77,342</u>
Total	<u>155,486</u>
Investment Performance Measurement	
Callan Associates	<u>129,292</u>
Total Other Management Fees	<u>958,331</u>
Total Management Fees	<u>\$ 15,549,692</u>

**Public Employees' Retirement System  
Investment Summary Schedule  
June 30, 1999**

	Public Employees' Asset Allocation Policy      Range		Market Value	% of Asset Class	% of Total Assets
Participation in Pools Owning Fixed Income Securities					
Domestic					
Short-Term Fixed Income Pool			\$ 278,143	0.01%	0.00%
Retirement Fixed Income Pool			2,360,296,348	96.61%	29.19%
External Domestic Fixed Income Pool			<u>82,497,773</u>	<u>3.38%</u>	<u>1.02%</u>
Total Domestic Fixed Income	32%	22-42%	<u>2,443,072,264</u>	<u>100.0%</u>	<u>30.21%</u>
International					
International Fixed Income Pool	<u>6%</u>	<u>3-9%</u>	<u>416,132,194</u>	<u>100.0%</u>	<u>5.14%</u>
Total Fixed Income Securities	<u>38%</u>	<u>25-51%</u>	<u>2,859,204,458</u>		<u>35.35%</u>
Participation in Pools Owning Domestic Equities					
Small cap <sup>(1)</sup> and Alternative Investments					
In Domestic Equity Pool			758,551,957	21.44%	9.37%
In Private Equity Pool			<u>42,671,756</u>	<u>1.20%</u>	<u>0.53%</u>
Total Small Cap Domestic Equities and Alternative Investment	11%	8-14%	<u>801,223,713</u>	<u>22.64%</u>	<u>9.90%</u>
Large cap					
In Domestic Equity Pool-active			2,001,789,449	56.57%	24.75%
In Domestic Equity Pool-passive			<u>735,810,871</u>	<u>20.79%</u>	<u>9.10%</u>
Total Large Cap Domestic Equities	<u>29%</u>	<u>24-34%</u>	<u>2,737,600,320</u>	<u>77.36%</u>	<u>33.85%</u>
Total Domestic Equities	<u>40%</u>	<u>32-48%</u>	<u>3,538,824,033</u>	<u>100.0%</u>	<u>43.75%</u>
Participation in Pools Owning International Equities					
International Equity Pool			1,294,041,969	94.06%	16.00%
Emerging Markets Equity Pool			<u>81,689,537</u>	<u>5.94%</u>	<u>1.01%</u>
Total International Equities	<u>17%</u>	<u>13-21%</u>	<u>1,375,731,506</u>	<u>100.00%</u>	<u>17.01%</u>
Participation in Real Estate					
Mortgages, net of allowances			339,825	0.11%	0.01%
Real Estate Equity Pool			<u>314,037,917</u>	<u>99.89%</u>	<u>3.88%</u>
Total Real Estate	<u>5%</u>	<u>2-8%</u>	<u>314,377,742</u>	<u>100.00%</u>	<u>3.89%</u>
Total Invested Assets	100%		\$ 8,088,137,739		100.00%

<sup>(1)</sup> Includes only securities held by those managers with small cap mandates. Does not include small cap holdings which may be held in other managers' portfolios.

**Public Employees' Retirement System  
Credit Risk of Investments  
Pension Trust Funds  
(Expressed in Thousands)  
June 30, 1999**

	Category			Fair Value
	1	2	3	
Marketable debt securities				
Domestic fixed income	\$ 2,442,794			\$ 2,442,794
International fixed income	416,132			416,132
Equity securities				
Domestic equities	3,496,152			3,496,152
International equities	1,294,042			1,294,042
Emerging market equities		81,690		81,690
	<u>\$ 7,649,120</u>	<u>\$ 81,690</u>	<u>\$ -</u>	<u>7,730,810</u>
Not Categorized				
Cash and cash equivalents				278
Venture capital limited partnerships				42,672
Real estate equities				314,038
Mortgage-related assets				<u>340</u>
Total investments not categorized				<u>357,328</u>
Total investments				<u>\$ 8,088,138</u>

The Governmental Accounting Standards Board (GASB) Statement No. 3 requires a disclosure regarding custodial credit risk to indicate the chance of loss in the event a financial institution or third party holding the Fund's deposits or securities fails. Deposits and those investments represented by specific, identifiable securities are classified into three categories of credit risk: Category 1 - Insured or registered, or securities held by the State or its custodian in the State's name; Category 2 - Uninsured or unregistered, with securities held by the counterparty's trust department (if a bank) or agent in the State's name; and Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department (if a bank) or agent, but not in the State's name. Category 1 is the highest level of safekeeping securities as defined by GASB.

The Fund's investments other than mortgage-related assets are represented by participation in investment pools rather than specific, identifiable securities. Although pooled investments represent the Fund's share of ownership in the pool rather than ownership of specific securities, all of the underlying securities in the pools in which the Fund participates are considered to be Category 1 as defined by GASB Statement No. 3, except: (A) investments in the mutual fund-like Emerging Markets Equity Pool which are considered to be Category 2, and (B) shares in the Private Equity Pool and the Real Estate Equity Pool which, like the Fund's mortgage-related assets, are not transferable financial instruments and therefore cannot be categorized with regard to custodial credit risk.



**Alaska State Pension Investment Board  
Recaptured Commission Fees Received in FY99**

	Domestic Equity	International Equity	Total
PERS	\$ 678,813	371,060	1,049,873
TRS	354,389	195,565	549,954
Judicial	4,301	3,673	7,974
Military	<u>902</u>	<u>423</u>	<u>1,325</u>
Total	<u>\$ 1,038,405</u>	<u>570,721</u>	<u>1,609,126</u>

The Alaska State Pension Investment Board (ASPIB) entered into a commission recapture program in late June 1995 with three large block brokerage firms. A commission recapture program is a form of directed brokerage that allows the plan sponsor to "recapture" a portion of commission dollars paid to broker-dealer firms for executing trades. In June 1995, the large capitalization domestic equity managers were asked to participate in the program targeting 20% of their trading value. The equity managers were asked to consider best execution first and foremost, but encouraged to participate in the commission recapture program when possible. In July 1996, ASPIB raised the level of elective participation for the large capitalization domestic equity managers from 20% to 30% of total trading activity. At that time, ASPIB also requested that small capitalization managers participate in the commission recapture program when the opportunity was available to them.

In January 1998, the Alaska State Pension Investment Board (ASPIB) augmented its commission recapture program to include external managers that conduct international equity trades. As a result, a portion of the commission recapture payments received since January have resulted from international equity trades.